



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-03	BOARD MEETING: December 10, 2012	PROJECT NO: 12-063	PROJECT COST: Original: \$19,000,000
FACILITY NAME: Ottawa Pavilion		CITY: Ottawa	Current:
TYPE OF PROJECT: Substantive			HSA: II

PROJECT DESCRIPTION: The applicants (Ottawa Pavilion, Ltd., 800 East Center Street, LLC) are proposing to modernize and replace the existing buildings and add 10 long term care beds for a total of 129 long term care beds at a cost of \$19,000,000. **The anticipated project completion date is October 1, 2013.**

State Board Staff Notes:

- This project was originally approved in April of 2010 as Permit #09-048 for the modernization and replacement of existing buildings and the addition of 10 long term care beds for a total of 129 long term care beds at a cost of \$13,597,635.
- In June of 2012 permit #09-048 was deemed invalid for failure to comply with the post permit requirements and the project costs exceeded the allowable permit amount.
- In September 2012 a Final Order was issued whereby the parties agreed to file a second application for permit (Permit #12-063) to complete the project with a valid permit.
- As can be seen in the Table below the cost of the project has increased 40% and clinical costs have increase by 47% since approval in April of 2010.

Differences between Permit #09-068 and Project 12-063				
	Permit 09-068	Project 12-063	Differences	% Difference
Beds in Excess in Planning Area	71	15	56	
Cash	\$0	\$3,610,000	\$3,610,000	
Mortgage	\$13,597,635	\$15,390,000	\$1,792,365	13.2%
Cost of Project	\$13,597,635	\$19,000,000	\$5,402,365	40%
Clinical Costs	\$9,287,578	\$13,608,062	\$4,320,484	47%
Non-clinical Costs	\$4,310,057	\$5,391,938	\$1,081,881	25%
Size of Project	56,320	56,320	0	
Cost per GSF (new)	\$130.85	\$155.27	\$24.42	19%

Differences between Permit #09-068 and Project 12-063				
	Permit 09-068	Project 12-063	Differences	% Difference
Cost per GSF (modernization)	\$73.32	\$401.91	\$329	448%

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (Ottawa Pavilion, Ltd., 800 East Center Street, LLC) are proposing to modernize and replace the existing buildings and add 10 long term care beds for a total of 129 long term care beds at a cost of \$19,000,000.
- **The anticipated project completion date is October 1, 2013.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- To modernize an existing long term care facility in excess of the capital expenditure minimum of \$6,885,803.

PURPOSE OF THE PROJECT:

- The goal of this project is to increase access to high quality, state-of-the-art skilled nursing care to residents of LaSalle County and correct life safety deficiencies.

NEED FOR THE PROJECT:

- **To modernize and add beds to an existing facility;**
 - Document that the existing structure has deteriorated and need of modernization;
 - Document that the facility will provide service to the planning area residents;
 - Document that there is demand for the facility;
 - Document that the bed capacity will not exceed 250 long term care beds;
 - Document that there is sufficient staffing availability;
 - Document that the community is in support of the facility;
 - Document that the facility is appropriately sized and zoned, and;
 - Provide assurance that the facility will achieve and maintain target occupancy within two years after project completion.
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- The existing building consists of three contiguous structures. The first building, constructed in 1920, has deteriorated is currently only used for limited storage, With the exception of the current storage area, most of this building was replaced in 1940 by what is referred to as the Main Building, The third building was constructed in 1989. IDPH has identified life safety issues that need to be addressed at the facility and routine maintenance has doubled over the past 10 years and in 2011 was approximately \$190,000. Ottawa Pavilion has averaged 80% occupancy over the past 3 years and 75% of these residents come from within the LaSalle County Planning Area. Sufficient staff is available and all Medicare and Medicaid staffing ratios are being met. The new/modernized facility will include 49 private rooms and 40 semi-private rooms. Additionally, each resident room will have its own bathroom. Letters from the community have been provided and the facility is appropriately zoned and has provided assurance that target occupancy will be reached within 2 years after project completion. A 40 year mortgage has been secured and is insured by HUD. The interest rate on the loan is 5.45%. Additional equity in the amount of

\$3,610,000 from the originally approved project has been provided. The project is approximately 85% complete.

- **The State Board Staff notes Ottawa Pavilion have a 5-star rating per the Medicare Nursing Home rating system.**

BACKGROUND/COMPLIANCE ISSUES

- The applicants have no adverse background or compliance issues to report.

PUBLIC HEARING/COMMENT

- No public hearing was requested and no letters of support or opposition were received by the State Board Staff.

FINANCIAL AND ECONOMIC FEASIBILITY:

- The project is ongoing and financing has been secured.

CONCLUSIONS:

- The modernization appears warranted given the age and condition of the existing structures. However the number of beds being requested is in excess of the number of beds justified by the applicants utilization. The applicants can justify 107 long term care beds and not the 129 long term care beds being requested to be modernized. The applicants addressed a total of 20 criteria and have failed to meet the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1125.550- Expansion of Long Term Care Facility	The applicants' utilization can justify 107 LTC beds and not the 129 LTC beds being requested.
Criterion 1125.620 - Size of the Project	The total gross square footage of the proposed project is 79,168 gross square feet (or 613.7 gross square feet per bed). Although the square footage exceeds the State Standard by 5,638 (or 43.7 gross square feet per bed), the additional space is needed due programmatic, clinical and operational needs.
Criterion 1125.800 - Reasonableness of Project Costs	The applicants modernization costs (\$401.91) are in excess of the State Board Standard of \$133.47

STATE AGENCY REPORT
PROJECT #12-083

APPLICATION SUMMARY	
Applicants(s)	Ottawa Pavilion, Ltd. 800 East Center Street, LLC
Facility Name	Ottawa Pavilion
Location	Ottawa
Application Received	June 29, 2012
Application Deemed Complete	July 26, 2012
Review Period Ended	September 26, 2012
Public Hearing Held	No
Can Applicants Request Deferral?	Yes
Review Period Extended by the State Agency?	No
Applicants' Modified the project?	No

I. The Proposed Project

The applicants (Ottawa Pavilion, Ltd., 800 East Center Street, LLC) are proposing to modernize and replace the existing buildings and add 10 long term care beds for a total of 129 long term care beds at a cost of \$19,000,000. **The anticipated project completion date is October 1, 2013.**

II. Summary of Findings

- A. The State Agency finds the proposed project does not appear to be in conformance with the provisions of Part 1110.
- B. The State Agency finds the proposed project does not appear to be in conformance with the provisions of Part 1120.

III. General Information

The applicants are 800 East Center Street, LLC, and Ottawa Pavilion, Ltd. The project is substantive and subject to Parts 1110 and 1120 review. An opportunity for a public hearing was offered on this project; however, no hearing was requested. **The State Board Staff notes Ottawa Pavilion have a 5-star rating per the Medicare Nursing Home rating system.**

The LTC facility is located in HSA 2, and in the LaSalle County Long Term Care Planning Area. The November 2012 update to the Inventory of Long-Term Care General Nursing Bed Need ("Inventory") shows a computed excess of 15 LTC beds in the LaSalle County Planning Area.

IV. The Proposed Project - Details

The applicants propose to upgrade their facility through a combination of new construction and modernization of the existing structures. Once completed, the facility will increase its bed complement by 10, from 119 to 129 skilled nursing beds. **The project completion date is October 1, 2013.**

V. Project Costs and Sources of Funds

The proposed project is being funded through a mortgage in the amount of \$15,390,000 and cash in the amount of \$3,610,000. Table One outlines the project's costs and uses of funds.

TABLE ONE							
Project Costs and Sources of Funds							
Use of Funds	Original Permit			Proposed			Difference
	Clinical	Non-Clinical	Total	Clinical	Non-Clinical	Total	
Preplanning Costs	\$46,470	\$20,530	\$67,000	\$46,470	\$20,530	\$67,000	\$0
Site Survey and Soil Investigation	\$10,404	\$4,596	\$15,000	\$10,404	\$4,596	\$15,000	\$0
Site Preparation	\$270,494	\$119,506	\$390,000	\$395,104	\$160,286	\$555,390	\$165,390
New Construction Contracts	\$5,849,250	\$2,971,875	\$8,821,125	\$7,113,820	\$2,885,948	\$9,999,768	\$1,178,643
Modernization Contracts	\$476,102	\$161,272	\$637,374	\$2,677,284	\$1,086,126	\$3,763,410	\$3,126,036
Contingencies	\$632,535	\$313,315	\$945,850	\$716,693	\$290,750	\$1,007,443	\$61,593
A & E Fees	\$265,000	\$124,850	\$389,850	\$464,957	\$188,625	\$653,582	\$263,732
Consulting and Other Fees	\$72,305	\$31,945	\$104,250	\$401,256	\$162,783	\$564,039	\$459,789
Movable or Other Equipment	\$800,000	\$180,000	\$980,000	\$800,000	\$180,000	\$980,000	\$0
Net Interest Expense	\$480,648	\$212,352	\$693,000	\$597,704	\$242,478	\$840,182	\$147,182
Other Costs to be Capitalized	\$384,370	\$169,816	\$554,186	\$384,370	\$169,816	\$554,186	\$0
TOTALS	\$9,287,578	\$4,310,057	\$13,597,635	\$13,608,062	\$5,391,938	\$19,000,000	\$5,402,365
Source of Funds	Clinical	Non-Clinical	Total	Clinical	Non-Clinical	Total	
Cash	\$0	\$0	\$0	\$ 2,659,638	\$ 950,362	\$ 3,610,000	\$3,610,000
Mortgages	\$9,287,578	\$4,310,057	\$13,597,635	\$10,948,424	\$4,441,576	\$15,390,000	\$1,792,365
TOTALS	\$9,287,578	\$4,310,057	\$13,597,635	\$ 13,608,062	\$ 5,391,938	\$ 19,000,000	\$5,402,365

VI. Cost/Space Requirements

Table Two displays the project's cost/space requirements for the clinical portion only. The non-clinical portion can be found at page 69 of the application. The definition of non-clinical as defined in the Planning Act [20 ILCS 3960/3] states,

“non-clinical service area means an area for the benefit of the patients, visitors, staff or employees of a health care facility and not directly related to the diagnosis, treatment, or rehabilitation of persons receiving treatment at the health care facility.”

TABLE TWO Cost Space Requirements						
Departments	Cost	Existing GSF	Proposed GSF	New Construction	Modernization	Vacated
Clinical						
Nursing	\$5,558,584	17,762	37,134	31,105	6,029	11733
Living/Dining/ Activity	\$1,108,903	4,037	7,408	6,288	1,120	2917
Kitchen/Food Services	\$564,930	1,186	3,774	3,774		1186
P.T./O.T.	\$922,688	1,577	6,164	6,164		1577
Laundry	\$107,926	510	721	721		510
Janitor Closets	\$28,142	154	188	188		154
Clean Soiled Utility	\$96,700	543	646	646		543
Beauty Barber	\$42,662	374	285	285		374
TOTALS	\$8,430,535	26,143	56,320	49,171	7,149	18,994

VII. Project Purpose and Alternatives - Information Requirements

A. Criterion 1125.320 - Purpose of the Project

The criterion states:

“The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

- 1) The applicant shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project. Examples of such information include:

- A) The area's demographics or characteristics (e.g., rapid area growth rate, increased aging population, higher or lower

fertility rates) that may affect the need for services in the future;

- B) The population's morbidity or mortality rates;
 - C) The incidence of various diseases in the area;
 - D) The population's financial ability to access health care (e.g., financial hardship, increased number of charity care patients, changes in the area population's insurance or managed care status);
 - E) The physical accessibility to necessary health care (e.g., new highways, other changes in roadways, changes in bus/train routes or changes in housing developments).
- 2) The applicant shall cite the source of the information (e.g., local health department Illinois Project for Local Assessment of Need (IPLAN) documents, Public Health Futures, local mental health plans, or other health assessment studies from governmental or academic and/or other independent sources).
 - 3) The applicant shall detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being. Further, the applicant shall provide goals with quantified and measurable objectives with specific time frames that relate to achieving the stated goals.
 - 4) For projects involving modernization, the applicant shall describe the conditions being upgraded. For facility projects, the applicant shall include statements of age and condition and any regulatory citations. For equipment being replaced, the applicant shall also include repair and maintenance records."

The applicants stated *"The project proposes the major modernization .of Ottawa Pavilion, an existing 119-bed skilled nursing facility located at 801 East Center Street, Ottawa, Illinois. The existing facility consists of three contiguous structures. The first building, constructed in 1920, has deteriorated significantly over time and is currently used only for limited storage. Most of this building was replaced in 1940 by what is referred to as the Main Building. The third building was built in 1989 and is in need of significant updates. The Main Building currently is insufficient to meet the needs of today's seniors. The building is Old, poorly configured and in constant need of repair. The cost to maintain the facility*

has nearly doubled over the past ten years.. As a result, It has become cost prohibitive to maintain. In fact, over the last ten years, maintenance costs have nearly doubled from \$99,099 in 2001 to \$190,186 in 2011. Moreover, during this same time period, the Applicant has made over \$2 million in capital improvements to the building. Given the high cost of maintaining the building, the Applicant determined the Main Building should be replaced and the third building modernized to meet the needs of today's seniors. Ottawa Pavilion is an existing skilled nursing facility primarily serving residents of LaSalle County. The primary market area consists of the cities of Ottawa and Marseilles and the secondary market is LaSalle County. The proposed project will ensure residents of LaSalle County have access to high quality skilled nursing facilities and address the need for additional skilled nursing beds in LaSalle County. The project will address the need for beds in LaSalle County. The goal of this project is to increase access to high quality, state-of-the-art skilled nursing care to residents of LaSalle County. The Applicant projects that within two years of project completion Ottawa Pavilion will reach and maintain 90% utilization."

B. Criterion 1125.330 - Alternatives to the Proposed Project

The criterion states:

"The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

- 1) Alternative options shall be addressed. Examples of alternative options include:**
 - A) Proposing a project of greater or lesser scope and cost;**
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;**
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and**
 - D) Other considerations.**

- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of cost, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation.
- 3) The applicant shall provide empirical evidence, including quantified outcome data; that verifies improved quality of care, as available."

The applicants considered two alternatives: doing nothing and the discontinuation of Ottawa Pavilion. The first alternative was rejected because of the condition of the existing buildings and the high cost of maintenance. The second alternative was rejected because it would decrease access to skilled nursing facilities in LaSalle County.

VIII. General Long Term Care Category of Service

A. Criterion 1110.520(a) - Background of Applicant

The criterion:

"An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicant, HFPB shall consider whether adverse action has been taken against the applicant, or against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application. A health care facility is considered "owned or operated" by every person or entity that owns, directly or indirectly, an ownership interest. If any person or entity owns any option to acquire stock, the stock shall be considered to be owned by such person or entity (refer to 77 Ill. Adm. Code 1100 and 1130 for definitions of terms such as "adverse action", "ownership interest" and "principal shareholder")."

The applicants state they do not operate any facilities in Illinois. However, the applicants did identify 12 nursing facilities operated by related entities and provided copies of licenses for said facilities. Individuals with a 5% or greater ownership interest in Ottawa Pavilion, Ltd. are Devora Goldstein (7.56%), Abraham Stern (15.55%), Fred

Aaron(13.03%), Maurice Aaron (26.05%), Francis Maurer (7.56%), Esther Maryles (5.67%), Chana Maurer (5.67%), and Marshall Maurer (14.71%). The applicants provided licensure and certification information as required. The applicants provided representations that the State Agency can access any and all information to determine whether adverse actions have been taken against the applicants. The applicants provided all the necessary information required to address this criterion.

B. Criterion 1125.530 (b) - Service to Planning Area Residents

- 1) Applicants proposing to establish or add beds shall document that the primary purpose of the project will be to provide necessary LTC to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.
- 2) Applicants proposing to add beds to an existing general LTC service shall provide resident/patient origin information for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the area. For all other projects, applicants shall document that at least 50% of the projected resident volume will be from residents of the area.
- 3) Applicants proposing to expand an existing general LTC service shall submit resident/patient origin information by zip code, based upon the resident's/patient's legal residence (other than an LTC facility).

The applicants have provided evidence that over 75% of the residents of Ottawa Pavilion come from the planning area.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH SERVICE TO PLANNING AREA RESIDENTS- REVIEW CRITERION (77 IAC 1125.530 (b)).

C. Criterion 1125.550 - Expansion of General Long-Term Care

The number of beds to be added at an existing facility is necessary to reduce the facility's experienced high occupancy and to meet a projected demand for service. The applicant shall document subsection (a) and either subsection (b) or (c).

a) Historical Service Demand

- 1) An average annual occupancy rate that has equaled or exceeded occupancy standards for general LTC, as specified in Section 1125.210(c), for each of the latest two years.**
- 2) If prospective residents have been referred to other facilities in order to receive the subject services, the applicant shall provide documentation of the referrals, including completed applications that could not be accepted due to lack of the subject service and documentation from referral sources, with identification of those patients by initials and date.**

b) Projected Referrals

The applicant shall provide documentation as described in Section 1125.540(d).

The applicants are proposing to add 10 long term care beds to their existing 119 beds. There is a calculated excess of 15 long term care beds in the LaSalle County Planning area. The facility is currently operating at 80.6%. The applicants can justify 107 beds at the State Board's target occupancy of 90% and not the 129 long term care beds being requested. The referral letters are four years old and the State Board Staff could not reach a conclusion on the projected number of residents to occupy the facility.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH EXPANSION OF BEDS- REVIEW CRITERION (77 IAC 1125.550).

D. Criterion 1125.590 - Staffing Availability

The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that staffing requirements of licensure, certification and applicable accrediting agencies can be met. In addition, the applicant shall document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.

The Ottawa complies with all State and Medicare staffing requirements. As discussed throughout this application, the Applicant seeks authority from the State Board to modernize and expand its existing facility. The Ottawa is licensed and certified to participate in both Medicare and Medicaid. It is fully staffed with an administrator, director of nursing, 8 registered nurses, 8 licensed practical nurses, 49 certified nursing assistants as well as other health and non-health staff. Staffing levels are based upon the needs of the residents, As patient need increases, staffing levels will increase to ensure the needs of all residents are met

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH EXPANSION OF BEDS-REVIEW CRITERION (77 IAC 1125.590).

E. Criterion 1125.600 - Bed Capacity

The maximum bed capacity of a general LTC facility is 250 beds, unless the applicant documents that a larger facility would provide personalization of patient/resident care and documents provision of quality care based on the experience of the applicant and compliance with IDPH's licensure standards (77 Ill. Adm. Code: Chapter I, Subchapter c (Long-Term Care Facilities)) over a two-year period.

The applicants are proposing 129 long term care beds. The applicants have met this requirement.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH EXPANSION OF BEDS-REVIEW CRITERION (77 IAC 1125.600).

F. Criterion 1125.610 Community Related Functions

The applicant shall document cooperation with and the receipt of the endorsement of community groups in the town or municipality where the facility is or is proposed to be located, such as, but not limited to, social, economic or governmental organizations or other concerned parties or groups. Documentation shall consist of copies of all letters of support from those organizations.

Letters from community groups from the City of Ottawa and surrounding areas supporting the modernization and expansion of Ottawa Pavilion were provided as required.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH EXPANSION OF BEDS-REVIEW CRITERION (77 IAC 1125.610).

G. Criterion 1125.620 - Project Size

The applicant shall document that the amount of physical space proposed for the project is necessary and not excessive. The proposed gross square footage (GSF) cannot exceed the GSF standards of Appendix A, unless the additional GSF can be justified by documenting one of the following:

- a) Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;**
- b) The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix A;**
- c) The project involves the conversion of existing bed space that results in excess square footage.**

The total gross square footage of the proposed project is 79,168 gross square feet (or 613.7 gross square feet per bed). Although the square footage exceeds the State Standard by 5,638 (or 43.7 gross square feet per bed), the additional space is needed due programmatic, clinical and operational needs. The existing facility consists of 42,116 gross square feet and includes 15 private rooms, 46 semi-private rooms, and four three-bed ward rooms. Importantly, the main building has physical constraints that do not allow for effective or efficient modernization. Therefore the majority of the existing facility will be demolished and replaced. The new/modernized facility will include 49 private rooms and 40 semi-private rooms. Additionally, each resident room will have its own bathroom. In addition to the privacy and independence benefits these amenities will provide residents, the clinical benefits include infection control, isolation, and accommodation of residents with dementia or behavioral issues necessitating a private room. Further, private rooms are crucial for hospice residents to allow their families to spend their final days together in a private setting. Likewise, residents who are admitted post-operatively for rehabilitation have difficulty rehabilitating when

required to share a room with a long-term resident. Private rooms allow rehab residents to rehabilitate and return to the community more quickly.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE SIZE OF PROJECT - REVIEW CRITERION (77 IAC 1125.620)).

H. Criterion 1125.630 - Zoning

The applicant shall document one of the following:

- a) The property to be utilized has been zoned for the type of facility to be developed;
- b) Zoning approval has been received; or
- c) A variance in zoning for the project is to be sought.

The applicants are in compliance with this criterion.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ZONING - REVIEW CRITERION (77 IAC 1125.630)).

I. Criterion 1125.640 - Assurances

- a) The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in Section 1125.210(c) for each category of service involved in the proposal.

The applicants have provided the necessary assurances as required.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES - REVIEW CRITERION (77 IAC 1125.640)).

J. Criterion 1125.650 - Modernization

- 1) Documentation Related to Cited Problems

In the absence of cited rules for 1110.1730(d)(3), the applicants did cite documentation alluding to the building being an old structure, and needing replaced. The applicants also attached State surveys of the Physical Plant as well as an architect's report that outlines specifically what items are not in compliance, and what it would take to rectify the situation.

- 1) If the project involves modernization of a category of hospital facility bed service, the applicant shall document that the inpatient bed areas to be modernized are deteriorated or functionally obsolete and need to be replaced or modernized, due to such factors as, but not limited to:**
 - A) High cost of maintenance;**
 - B) Non-compliance with licensing or life safety codes;**
 - C) Changes in standards of care (e.g., private versus multiple bed rooms); or**
 - D) Additional space for diagnostic or therapeutic purposes.**
- 2) Documentation shall include the most recent:**
 - A) IDPH CMMS inspection reports; and**
 - B) Joint Commission on Accreditation of Healthcare Organizations (JCAHO) reports.**
- 3) Other documentation shall include the following, as applicable to the factors cited in the application:**
 - A) Copies of maintenance reports;**
 - B) Copies of citations for life safety code violations; and**
 - C) Other pertinent reports and data.**
- 4) Projects involving the replacement or modernization of a category of service or facility shall meet or exceed the occupancy standards for the categories of service, as specified in 77 Ill. Adm. Code 1100.**

1) Deteriorated Facilities

A) High Cost of Maintenance

The existing facility consists of three contiguous buildings. The first building, constructed in 1920, has deteriorated significantly over time and is currently only used for limited storage. With the exception of the current storage area, most of this building was replaced in 1940 by what is referred to as the Main Building. The third building was constructed in 1989 and is in need of modernization. The cost to maintain the Main Building has *nearly* doubled over the past ten years. As a result, it has become cost prohibitive to maintain the Main Building. As shown in the 2011 Medicaid cost report the applicant spent \$190,186 in maintenance and repair costs to the Main Building last year compared to \$99,099 in 2001. Moreover, during this same time period, the Applicant has made over \$2 million in capital improvements to the building. Given the high cost of maintaining the building, the Applicant decided the most effective and efficient use of its capital resources is to replace the Main Building and modernize the third building.

B) Non-Compliance with Licensing or Life Safety Codes

In addition to the high cost of maintaining the physical plant, the facility has deferred maintenance it can no longer delay. Items of extensive expenses such as automatic fire sprinkler system, corridor doors, exits, egress windows, mechanical systems, and the roof system are either out of compliance with the current licensure code or at the end of their useful life.

C) Changes in Standards of Care

The majority of Main Building was constructed in 1940 when more institutional settings were the norm. As such, the existing facility only has 15 private rooms, 46 semi-private rooms, and four three-bed wards. Today's seniors expect a more home-like environment with private rooms and baths. The modernized facility will have 49 private rooms and 40 semi-private rooms with each resident room having a private bathroom. As part of the modernization, the four three bed wards will be eliminated. Further, the modernized facility will include smaller autonomous households or

neighborhoods, which will have their own dining and activity space. Additionally, there will be a Medicare rehabilitation wing with all private rooms for short-term rehabilitation residents. These changes will provide residents with a more state-of-the-art environment, which will allow for greater personalized care.

D) Additional Space for Diagnostic or Therapeutic Purposes

The modernized facility will include additional space for inpatient and outpatient physical and occupational therapy. The proposed *PT/OT* area will be located in newly constructed space area will be nearly three times the size of the existing *PT/OT* space. Further, this area will have a separate entrance. The proposed *PT/OT* area will be more in line with industry trends of providing more extensive therapy spaces to promote rehabilitation and to allow residents to return to their homes and lives sooner.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE MODERNIZATION FACILITIES REVIEW CRITERION (77 IAC 1125.650)).

IX. 1125.800 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable:

- a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
 - 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
 - 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
- b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of

past fundraising experience. Provide a list of confirmed pledges from major donors (over \$100,000);

- c) **Gifts and Bequests** – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
- d) **Debt** – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
 - 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
 - 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
 - 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
 - 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
- e) **Governmental Appropriations** – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
- f) **Grants** – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
- g) **All Other Funds and Sources** – verification of the amount and type of any other funds that will be used for the project.

The applicants are funding this project with an Economic Development Grant in the amount of \$3,610,000 and mortgages totaling \$15,390,000. Construction is ongoing funds are available.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1125.800).

X. 77 IAC 1125.800 - Financial Feasibility

- 1) The applicant shall provide (for the LTC facility or for the person who controls the LTC facility) either documentation of a U.S. Department of Housing and Urban Development (HUD) insured mortgage commitment, historical financial statements, or evidence of financial resources to fund the project.**
- 2) Historical Financial Statements – The applicant shall provide (for the LTC facility or for the person who controls the LTC facility) the most recent three years' financial statements (if available) that include the following:**
 - A) Balance sheet;**
 - B) Income statement;**
 - C) Changes in fund balance; and**
 - D) Change in financial position.**
- 3) Projected Capital Costs – The applicant must provide the annual projected capital costs (depreciation, amortization and interest expense) for:**
 - A) The first full fiscal year after project completion; or**
 - B) The first full fiscal year when the project achieves or exceeds the average occupancy rate in the market area (or target occupancy), whichever is later.**
- 4) Projected Operating Costs – The applicant shall provide projected operating costs (excluding depreciation and stated in current dollars based on the full-time equivalents (FTEs) and other resource requirements) for the first full fiscal year after**

project completion or the first full fiscal year when the project achieves or exceeds the average occupancy rate in the market area (or target occupancy), whichever is later, including:

- A) Annual operating costs; and
 - B) Annual operating costs change (increase or decrease) attributable to the project.
- 5) **Availability of Funds** – The applicant shall document that financial resources will be available and be equal to or exceed the estimated total project cost and any related cost. An applicant that has no documented HUD insured mortgage commitment shall document that the project and related costs will be:
- A) Funded in total with cash and equivalents, including investment securities, unrestricted funds, and funded depreciation as currently defined by the Medicare statute (42 USC 1395 et seq.); or
 - B) Funded in total or in part by borrowing because:
 - i) a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times; or
 - ii) Borrowing is less costly than the liquidation of existing investments.
- 6) **Operating Start-up Costs** – The applicant shall document that financial resources will be available and be equal to or exceed any start-up expenses and any initial operating deficit.
- 7) **Financial Viability** – The applicant shall demonstrate the financial feasibility of the project based upon the projection of reasonable Medicare, Medicaid and private pay charges, expenses of operation, and staffing patterns relative to other facilities in the market area in which the proposed project will be located.
- 8) **Previous Certificate of Need Projects** –The applicant shall describe its previous record of implementing certificate of need-approved LTC projects.

- 9) **Financial and Economic Review Standard Ratios for New Facilities** –The proposed project shall comply with the ratio standards cited in Appendix B. Applicants not in compliance with any of the viability ratios shall document the reasons for non-compliance.

The applicants are funding this project with cash and securities in the amount of \$3,610,000, and mortgages totaling \$15,390,000. The application contains a firm commitment letter from the US Department of Housing and Urban Development. The project is approximately 85% complete. The applicants are financially viable.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1125.800).

XI. Review Criteria - Economic Feasibility

A. Criterion 1125.800 - Reasonableness of Financing Arrangements

The criterion states:

“This criterion is not applicable if the applicant has documented a bond rating of "A" or better pursuant to Section 1120.210. An applicant that has not documented a bond rating of "A" or better must document that the project and related costs will be:

- 1) funded in total with cash and equivalents including investment securities, unrestricted funds, and funded depreciation as currently defined by the Medicare regulations (42 USC 1395); or
- 2) funded in total or in part by borrowing because:
 - A) a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times;
 - B) or borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60 day period. The applicant must submit a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to compliance with this requirement.

- C) The project is classified as a Class B project. The co-applicants do not have a bond rating of "A". No capital costs, except fair market value of leased space and used equipment, are being incurred by the co-applicants."

The applicants have obtained financing as the project is ongoing. The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF FINANCING CRITERION (77 IAC 1125.800).

B. Criterion 1125.800(b) - Conditions of Debt Financing

This criterion states:

"The applicant must certify that the selected form of debt financing the project will be at the lowest net cost available or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs, and other factors. In addition, if all or part of the project involves the leasing of equipment or facilities, the applicant must certify that the expenses incurred with leasing a facility and/or equipment are less costly than constructing a new facility or purchasing new equipment. Certification of compliance with the requirements of this criterion must be in the form of a notarized statement signed by two authorized representative (in the case of a corporation, one must be a member of the board of directors) of the applicant entity."

The applicants have obtained financing as the project is ongoing. The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS BE IN CONFORMANCE WITH THE TERMS OF DEBT FINANCING CRITERION (77 IAC 1125.800).

C. Criterion 1125.800(c) - Reasonableness of Project Cost

The criteria states:

"1) Construction and Modernization Costs

Construction and modernization costs per square foot for non-hospital based ambulatory surgical treatment centers and for facilities for the developmentally disabled, and for chronic renal dialysis treatment centers projects shall not exceed the standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. For all other projects, construction and modernization costs per square foot shall not exceed the adjusted (for inflation, location, economies of scale and mix of service) third quartile as provided for in the Means Building Construction Cost Data publication unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.

2) Contingencies

Contingencies (stated as a percentage of construction costs for the stage of architectural development) shall not exceed the standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. Contingencies shall be for construction or modernization only and shall be included in the cost per square foot calculation.

BOARD NOTE: If, subsequent to permit issuance, contingencies are proposed to be used for other line item costs, an alteration to the permit (as detailed in 77 Ill. Adm. Code 1130.750) must be approved by the State Board prior to such use.

3) Architectural Fees

Architectural fees shall not exceed the fee schedule standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.

4) Major Medical and Movable Equipment

A) For each piece of major medical equipment, the applicants must certify that the lowest net cost available has been selected, or if not selected, that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.

- B) Total movable equipment costs shall not exceed the standards for equipment as detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.
- 5) **Other Project and Related Costs**
The applicants must document that any preplanning, acquisition, site survey and preparation costs, net interest expense and other estimated costs do not exceed industry norms based upon a comparison with similar projects that have been reviewed."

Preplanning Costs - These costs total \$46,470 or less than 1% of construction, modernization, contingency, and equipment costs. This appears reasonable compared to the State standard of 1.8%.

Site Survey and Soil Investigation, Site Preparation - These costs total \$405,500 or 3.85% of construction, modernization, and contingency costs. This appears reasonable when compared to the State Board Standard of 5.0%.

New Construction and Contingencies - These cost total \$7,634,541 or \$155.27 per GSF. This appears reasonable when compared to the adjusted State Board standard of \$190.55 per GSF.

Modernization and Contingencies - These costs total \$2,873,256 or \$401.91. This appears HIGH when compared to the State Board Standard of \$133.40.

Contingencies - This cost is \$716,693 or 6.82% of new construction costs. This appears reasonable when compared to the State Board standards of 10%-15% for new construction and modernization projects.

Architectural and Engineering Fees - This cost is \$464,957 or 4.42% of new construction modernization and contingency costs. This appears reasonable when compared to the State Board standard of 5.94% - 8.92%.

Consulting and Other Fees - These costs total \$401,256. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$800,000 which totals \$6,202 per bed. This is reasonable compared to the State Board Standard of \$6,491 per bed.

Net Interest Expense During Construction - These costs total \$597,704. The State Board does not have a standard for these costs.

Other Costs to be Capitalized - These costs total 384,370. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN COMPLIANCE WITH THE REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC 1125.800).

D. Criterion 1125.800(d) - Projected Operating Costs

The criterion states:

“The applicants must provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. Direct cost means the fully allocated costs of salaries, benefits, and supplies for the service.”

The applicants note Annual Operating Costs of \$142.19 for 43,260 patient days. The State Board does not have a standard for this cost.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH THE PROJECTED OPERATING COSTS CRITERION (77 IAC 1125.800).

E. Criterion 1125.800(e) - Total Effect of the Project on Capital Costs

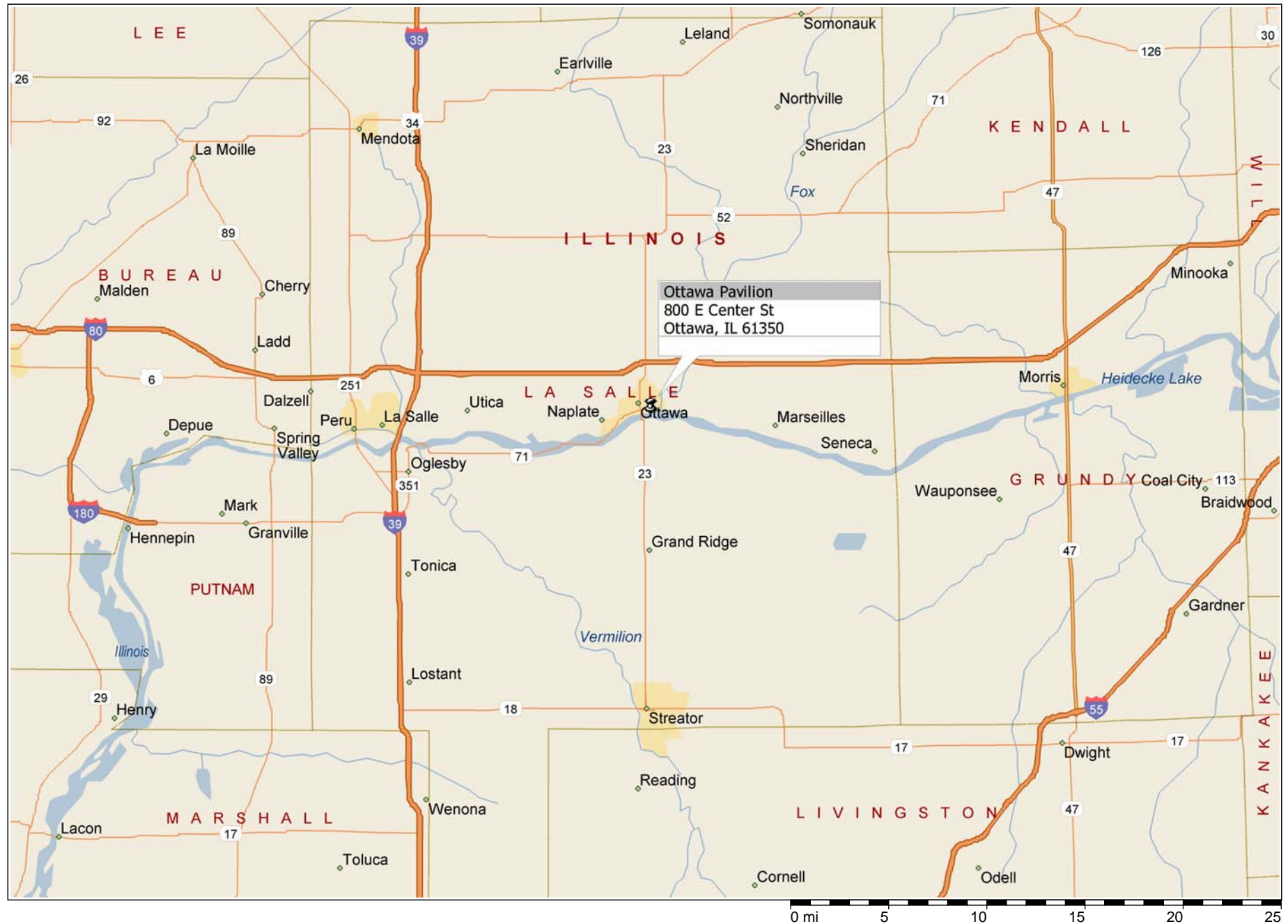
The criterion states:

“The applicants must provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later.”

The applicants report capital costs per day of \$1.66 for 43,260 patient days. The State Board does not have a standard for this cost.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1125.800).

12-063 Ottawa Pavilion - Ottawa



OTTAWA PAVILION			ADMISSION RESTRICTIONS		RESIDENTS BY PRIMARY DIAGNOSIS	
800 EAST CENTER STREET			Aggressive/Anti-Social	0	DIAGNOSIS	
OTTAWA, IL. 61350			Chronic Alcoholism	0	Neoplasms	6
Reference Numbers	Facility ID	6006985	Developmentally Disabled	0	Endocrine/Metabolic	1
Health Service Area	002	Planning Service Area	Drug Addiction	0	Blood Disorders	1
Administrator			Medicaid Recipient	0	*Nervous System Non Alzheimer	1
MARGIE LYLE			Medicare Recipient	0	Alzheimer Disease	3
			Mental Illness	0	Mental Illness	2
Contact Person and Telephone			Non-Ambulatory	0	Developmental Disability	6
MARGIE LYLE			Non-Mobile	0	Circulatory System	22
815-434-7144			Public Aid Recipient	0	Respiratory System	6
	Date Completed		Under 65 Years Old	0	Digestive System	1
Registered Agent Information	3/6/2012		Unable to Self-Medicate	0	Genitourinary System Disorders	6
Abraham Stern			Ventilator Dependent	1	Skin Disorders	1
26Payshere Circle			Infectious Disease w/ Isolation	0	Musculo-skeletal Disorders	13
Chicago, IL 60674			Other Restrictions	0	Injuries and Poisonings	0
FACILITY OWNERSHIP			No Restrictions	0	Other Medical Conditions	29
FOR-PROF CORPORATION					Non-Medical Conditions	0
CONTINUING CARE COMMUNITY	No		<i>Note: Reported restrictions denoted by 'I'</i>			TOTALS
LIFE CARE FACILITY	Yes					98
						Total Residents Diagnosed as Mentally Ill
						2

LICENSED BEDS, BEDS IN USE, MEDICARE/MEDICAID CERTIFIED BEDS									ADMISSIONS AND DISCHARGES - 2011	
LEVEL OF CARE	LICENSED BEDS	PEAK BEDS SET-UP	PEAK BEDS USED	BEDS SET-UP	BEDS IN USE	AVAILABLE BEDS	MEDICARE CERTIFIED	MEDICAID CERTIFIED	Residents on 1/1/2011	95
Nursing Care	119	119	104	119	98	21	119	119	Total Admissions 2011	295
Skilled Under 22	0	0	0	0	0	0		0	Total Discharges 2011	292
Intermediate DD	0	0	0	0	0	0		0	Residents on 12/31/2011	98
Sheltered Care	0	0	0	0	0	0			Identified Offenders	1
TOTAL BEDS	119	119	104	119	98	21	119	119		

FACILITY UTILIZATION - 2011
BY LEVEL OF CARE PROVIDED AND PATIENT PAYMENT SOURCE

LEVEL OF CARE	Medicare		Medicaid		Other Public	Private Insurance	Private Pay	Charity Care	TOTAL	Licensed Beds	Peak Beds
	Pat. days	Occ. Pct.	Pat. days	Occ. Pct.		Pat. days	Pat. days	Pat. days		Occ. Pct.	Set Up
Nursing Care	6280	14.5%	22526	51.9%	0	0	6219	0	35025	80.6%	80.6%
Skilled Under 22			0	0.0%	0	0	0	0	0	0.0%	0.0%
Intermediate DD			0	0.0%	0	0	0	0	0	0.0%	0.0%
Sheltered Care					0	0	0	0	0	0.0%	0.0%
TOTALS	6280	14.5%	22526	51.9%	0	0	6219	0	35025	80.6%	80.6%

RESIDENTS BY AGE GROUP, SEX AND LEVEL OF CARE - DECEMBER 31, 2011

AGE GROUPS	NURSING CARE		SKL UNDER 22		INTERMED. DD		SHELTERED		TOTAL		GRAND TOTAL
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
Under 18	0	0	0	0	0	0	0	0	0	0	0
18 to 44	0	0	0	0	0	0	0	0	0	0	0
45 to 59	3	2	0	0	0	0	0	0	3	2	5
60 to 64	4	1	0	0	0	0	0	0	4	1	5
65 to 74	6	13	0	0	0	0	0	0	6	13	19
75 to 84	9	18	0	0	0	0	0	0	9	18	27
85+	9	33	0	0	0	0	0	0	9	33	42
TOTALS	31	67	0	0	0	0	0	0	31	67	98

OTTAWA PAVILION

800 EAST CENTER STREET

OTTAWA, IL. 61350

Reference Numbers Facility ID 6006985

Health Service Area 002 Planning Service Area 099

RESIDENTS BY PAYMENT SOURCE AND LEVEL OF CARE

LEVEL OF CARE	Medicare	Medicaid	Other Public	Insurance	Private Pay	Charity Care	TOTALS
Nursing Care	20	60	0	0	18	0	98
Skilled Under 22	0	0	0	0	0	0	0
ICF/DD		0	0	0	0	0	0
Sheltered Care			0	0	0	0	0
TOTALS	20	60	0	0	18	0	98

AVERAGE DAILY PAYMENT RATES

LEVEL OF CARE	SINGLE	DOUBLE
Nursing Care	130	118
Skilled Under 22	0	0
Intermediate DD	0	0
Shelter	0	0

RESIDENTS BY RACIAL/ETHNICITY GROUPING

RACE	Nursing	SkilUnd22	ICF/DD	Shelter	Totals
Asian	0	0	0	0	0
Amer. Indian	0	0	0	0	0
Black	3	0	0	0	3
Hawaiian/Pac. Isl.	0	0	0	0	0
White	95	0	0	0	95
Race Unknown	0	0	0	0	0
Total	98	0	0	0	98

ETHNICITY	Nursing	SkilUnd22	ICF/DD	Shelter	Totals
Hispanic	1	0	0	0	1
Non-Hispanic	97	0	0	0	97
Ethnicity Unknown	0	0	0	0	0
Total	98	0	0	0	98

STAFFING

EMPLOYMENT CATEGORY	FULL-TIME EQUIVALENT
Administrators	1.00
Physicians	0.00
Director of Nursing	1.00
Registered Nurses	6.00
LPN's	9.00
Certified Aides	30.00
Other Health Staff	32.00
Non-Health Staff	0.00
Totals	79.00

NET REVENUE BY PAYOR SOURCE (Fiscal Year Data)

Medicare	Medicaid	Other Public	Private Insurance	Private Pay	TOTALS	Charity Care Expense*	Charity Care Expense as % of Total Net Revenue
45.2%	41.5%	0.0%	1.2%	12.1%	100.0%		0.0%
2,905,030	2,661,699	0	77,978	775,395	6,420,102	0	

*Charity Expense does not include expenses which may be considered a community benefit.